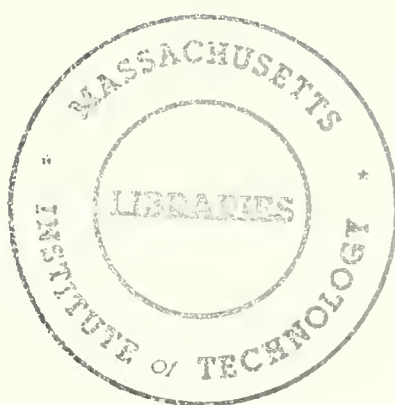
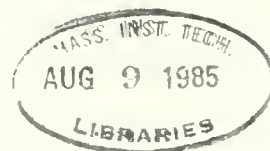


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THE CHANGING SYSTEM
OF AIRLINE INDUSTRIAL RELATIONS

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with the assistance of
Timothy A. Harris

Industrial Relations Section
Sloan School of Management
Massachusetts Institute of Technology

SSM WP #1626-85

February 1985

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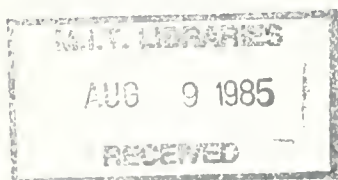
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Airline Industrial Relations in Transition

Recent changes in collective bargaining in the airline industry stand in marked contrast to the many years of stable industrial relations before deregulation. The sharpness of these changes in industrial relations and their correspondence with the restructuring of the industry caused by deregulation provide an interesting example from which to consider the economic forces that govern industrial relations. In air transport, it is not the market competition caused by deregulation as such that has changed industrial relations but the fact that this competition was imposed on a system of bargaining created for a different economic environment. The pressures that resulted have led to an elaborate pattern of union concessions and contract changes aimed at restructuring airline labor costs. This pattern, especially the differences across work groups, is best explained by examining the characteristics of the different unions representing air transport workers and the interests of their members.

In order to examine the pressures generated by deregulation, it is useful to consider the situation that existed prior to the Airline Deregulation Act¹ of 1978. The first relevant aspect of the regulations imposed on the industry by the Civil Aeronautics Board (CAB) was that carriers were not allowed to add or withdraw flights from their schedule without the Board's permission. This restriction was designed to ensure an adequate, integrated air transport network; where existing levels of service resulted in losses, the CAB was authorized to pay subsidies to carriers in order maintain service.

The second relevant feature of the regulated environment was that the CAB controlled fares, typically with formulas based on distance travelled, that were uniform across carriers. Fare increases were granted by the CAB in order to maintain reasonable rates of return, and wage increases were one of the allowable costs that fare increases were granted to cover.

1. For an account of the CAB controls prior to deregulation, see Taneja (1976).

With respect to industrial relations, one consequence of this regulated environment was that it gave the airline unions considerable power in bargaining. Because fares could be raised to cover increased labor costs, the carriers had less reason to resist them. Increased labor costs did not necessarily put carriers at a price disadvantage, and CAB restrictions on schedules and routes reduced the elasticity of demand so that higher fares led to relatively small declines in traffic. The nature of air transportation and of collective bargaining arrangements in the industry made it possible for the unions to inflict considerable damage on the carriers through industrial action. As Northrup (1977) and Kahn (1980) point out, because it is impossible to inventory passenger traffic, carriers lose all of the business they would otherwise have had during a strike. Further, passengers stay away from a carrier when strikes are threatened and even after they appear to be settled, fearing some new dispute that will interrupt their travel. The craft nature of bargaining under the Railway Labor Act also meant that the different bargaining units (pilots, flight attendants, mechanics, etc.), each had the ability to shut the carrier down (Northrup 1971, Shils 1971).

In these situations, employers may feel that the cost of contract improvements for these subgroups are small in absolute terms (affecting relatively few workers) and are worth granting to avoid strikes (Kuhn 1971). Over time, the different unions were able to whipsaw the carriers and drive total labor costs up considerably. Hendricks, Feuille, and Szerszen (1980) found that union wages and contract terms in the airline industry were higher than for similar jobs in manufacturing, other things equal, in large part because the environment created by the regulations increased union power.

The carriers, however, had two protections against the potential costs of industrial action. The first was an industry strike fund, the Mutual Assistance Plan, which became more generous over time and increased management's resistance

to strikes (Unterberger and Koziara 1977, 1980). The second protection came from the fact that the monopoly position that carriers often had in certain routes under CAB regulations meant that after a strike, at least some of their business would still be there.

The initial changes in the industry created by the Airline Deregulation Act of 1978 seem to have increased union bargaining power even further. The Mutual Aid Pact was legislated out of existence by the 1978 Act, and any new strike fund now must meet a much more restrictive set of guidelines. In addition, the end of CAB control over routes and schedules means that there is now no guarantee that any of a carrier's business will be there after a strike; competitors can come into one's markets during a strike and take those passengers away.¹ At smaller carriers, however, the surfeit of pilots and other skilled personnel during the recession made it possible for carriers to threaten to break strikes by hiring replacements, possibly shifting some bargaining power back to management.²

The increased vulnerability of the carriers to strikes and the threat they may present to employment has raised the stakes associated with industrial action, and both sides are now extremely reluctant to engage in it. Indeed, one of the main developments in industrial relations since deregulation has been a very sharp drop in strike activity. The most recent data suggests that industrial action is at the lowest level in 16 years (NMB 1983), a remarkable statistic given that the industry in general and labor

1. For example, United's markets were apparently so severely damaged by its 58 day machinist strike in 1979 that it initiated half-fare coupons to try and win some of its business back; this move sparked the industry's first major fare war which had disastrous consequences for all participants (Forbes, 9/1/81).

2. Continental replaced its striking mechanics and pilots in 1983 and unilaterally imposed lower pay rates as part of its bankruptcy reorganization plan. Kahn (1980 p. 399) notes that Century Airlines took somewhat similar action in 1931. It took advantage of the surplus of pilots and the need to cut costs and prices by forcing its pilots to resign and reapply for their jobs at half pay. This action led to ALPA's first strike.

relations in particular are going through the most traumatic changes in their history. In general, carriers have not won concessions through industrial action; in many cases, they have agreed to substantial settlements rather than confront unions determined to strike.¹

Of course, the most important change created by deregulation is that carriers are now free to compete for markets on the basis of fares and schedules. By itself, competition should not necessarily lead to pressures for concessions; after all, the highest union wages and most stable industrial relations have historically been in industries with competitive product markets (steel, autos, manufacturing in general), some of which were extremely competitive (e.g., tires and meatpacking). Commons (1909) famous argument suggested that in order for unions to raise wages above the market level, they must "take wages out of competition" by enforcing uniform contracts across the entire product market so that no competitor will have a labor cost advantage that can be turned into a competitive, price advantage. Where the unions were able to do this, wages were protected no matter how competitive the product markets were. In air transport, the unions have historically covered virtually the entire product market. The major and national carriers, all of which are at least partially unionized (even Delta has union pilots and dispatchers), still fly over 90 percent of all revenue passenger miles; the remainder goes to intrastate and "upstart" carriers, many of which are at least partially unionized. The nonunion share of the air transport market is roughly 5-7 percent, and these airlines often do not compete in the

1. For example, TWA won a wage freeze from its pilots in 1983 but when confronted by resistance from the machinists and flight attendants granted them 30 percent increases (over three years) with no offsetting productivity improvements (BW 7/25/83). Some argue that Eastern caved-in to IAM pressure last spring in order to avoid a strike despite a great need to secure concessions (BW 10/10/83).

same markets with the trunk carriers. Clearly, this kind of market coverage would be the envy of any industrial union in the country!

It might seem reasonable, therefore, to conclude about deregulation as did Hendricks et. al. (1980 p. 81) that "the industry and unionization characteristics that developed over 40 years of regulation have created a bargaining environment that should not change substantially in the future." Then why has the pressure for union concessions been so relentless?

Despite their coverage of the product market, unions never enforced uniform contracts across the product market and therefore never took wages out of competition through collective bargaining. CAB restrictions on routes and fares served that purpose, however, by preventing labor cost advantages from being translated into lower fares and a competitive advantage. Because of this CAB protection, there was no pressure forcing the evolution of industry-wide bargaining of the sort that had occurred in manufacturing. The unions, therefore, directed their efforts toward other goals -- meeting the varying needs of members at the different carriers. They did this by giving the locals almost complete autonomy, especially in collective bargaining. As a result, the bargaining structure in airlines has always been single craft-single employer. This type of bargaining structure was also encouraged by the Railway Labor Act's requirement that representation be by craft, leading to a plethora of unions in the industry. Shils (1971) points out that significant industrial disputes in the industry generally involved only one union, and disputes across carriers were virtually non-existent. This bargaining structure remains despite the creation of a special coordinating committee of air transport unions within the AFL-CIO.

1. These calculations are based on statistics on carrier market shares from CAB (1982). Freeman and Medoff's (1979) estimates suggest that 89 percent of air transport production workers were covered by collective bargaining agreements in 1969-'72. Coverage of the product market was virtually complete because the organized carriers flew far more flights and typically did not compete with the nonunion carriers who were concentrated on intra-state routes.

As soon as CAB regulations ended and fares became competitive, wages also came under competition. Because bargaining is carrier-specific, there is no mechanism to prevent the different local unions from undercutting each other's labor costs. Financially-vulnerable carriers were able to secure concessions and lower labor costs from their locals who were hoping to reduce expected employment losses; their competitors were then placed at a cost disadvantage (one carrier estimated that 78 percent of their controllable costs were labor related (WSJ 9/29/83), so they also demand concessions.¹ Soon, the industry's wage structure comes apart.

As in other industries, unions in airlines agree to concessions as a way to reduce potential unemployment; product demand has fallen because of rising low-price competition (here, mainly from other organized carriers), and the labor demand curve which results suggests that fewer workers will be employed unless labor costs are reduced (Cappelli 1982, 1984). Some carriers have been pushed into bankruptcy (Air Florida, Braniff, restructuring at Continental), others have at least confronted the possibility (Western, Eastern), and many carriers reduced capacity and laid-off workers during the recession. It is not surprising, therefore, to find financially-vulnerable carriers leading the concession trend. Six carriers were rated as vulnerable during the post-regulation period.² All had secured concessions by the fourth quarter of 1981. Further, because of cash-flow and immediate financial problems, they went after and secured wage concessions over workrule concessions by a margin

1. The great irony now is that during the early years of the industry, the carriers had pushed for industry-wide bargaining that would have taken wages out of competition but were rebuffed in these efforts by the unions. Brief experiments in multicarrier bargaining with the IAM in the 1960's were abandoned (Kahn 1953, 1980).

2. The vulnerable carriers were Braniff, Continental, Eastern, Pan Am, Republic, and Western. The ratings were based on a variety of financial measures including current assets to liabilities and cash reserves. The financially-secure carriers were American, Delta, Frontier, Northwest, TWA, and United. More recently, TWA could be seen as being in the vulnerable group.

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of 60 to 32. (Wage cuts generate immediate savings while workrule changes cut average costs only down the road if operations expand or if workers can be laid-off when operations contract. Unions are unlikely to agree to workrule changes in the latter). In contrast, the six strongest carriers financially during this period waited much longer before they secured concessions, typically only after their competitors above had done so, and secured workrules¹ over wage concessions by a margin of 30 to 24.

There are many ways to reduce labor costs, and the contract concessions secured by the carriers span a variety of areas in addition to wage cuts and freezes. The most important concessions in the industry, especially for flight crews and attendants, concern schedules. (Indeed, for these groups, contract restrictions on scheduling translate directly into pay through credits and supplements for night duty, layover time, etc. See Baitsell (1966) for a discussion of pay formulas.) About 45 percent of contract concessions in 1981-'84 dealt with scheduling issues. In contrast to other industries, there have been fewer efforts to broaden job classifications in airlines presumably because of the resistance generated from rivalries between craft unions.

For many carriers, the issue has been whether contract concessions can achieve the permanent restructuring of labor costs necessary to meet growing competition from nonunion carriers who are currently hiring new employees at roughly half the pay of their more senior colleagues at the trunk carriers. The solution has been to introduce two-tier or 'B' wage scales which provide lower pay for new hires. Obviously, two-tier rates reduce average labor

1. In many cases, however, labor cost differences are overshadowed by the importance of other operating characteristics (schedules, equipment, etc.) in determining a carrier's competitive advantage. For example, US Air has next to the highest cost structure in the industry yet remains one of the most profitable carriers; Braniff, in contrast, had next to the lowest cost structure before going bankrupt. Further, the ability to secure concessions from unions appears to be related to other considerations besides a carrier's vulnerability. For example, United and American have been extremely successful at securing concessions over time and are also among the industry's strongest carriers financially; Western, Eastern, and others have been very vulnerable financially but have over time been much less successful at securing concessions. For a consideration of these relationships, see Cappelli (forthcoming).

costs only as fast as the carrier can hire new workers -- expanding the workforce or at least generating turnover. For the unions, two-tier scales represent a concessions that costs the current membership nothing and which creates incentives to hire new workers, helping to eliminate the problem noted above of workers who have been stuck for years at the bottom of the seniority ladder. (The existence of two-tier scales raises potential problems for union governance, however.) American initiated the two-tier system as a condition for future expansion in 1983. The rest of the industry hastened to join the two-tier wave.

Two-Tier Wage Plans

	AA	DA	EA	FL	NW	OZ	PI	RC	UA	WA	USAir
Pilots	*1			*1			*	*	?	*1	
Flight Attendants	*1	*	*	*1	*	*	*	*	*	*1	
Mechanics	*	*						*	*	*	
Agents	2	*	*	*1			*	*	2	*	*1

(Source: AIRCon data. 1 = new hire scales will not achieve parity with scales for current employees; 2 = lower starting rates but same scales, ? = negotiations in progress. AA=American; BA=Braniff; CO=Continental; DA=Delta; EA=Eastern; FL=Frontier; NW=Northwest; OZ=Ozark; PI=Piedmont; RC=Republic; UA=United; WA=Western.)

Perhaps the most interesting issue in airline industrial relations is the distribution of contract changes by workgroup. How interested a workgroup is in making concessions depends not only on the probability that concessions will save jobs but also on the value of those jobs -- how do they compare to alternatives elsewhere? In addition, the ability of local unions to grant concessions may depend on their autonomy from the interests of the International and on the extent of competition from other unions for their members. As Ross (1948) argued, unions may feel compelled to take a harder line in bargaining when they face competition from other unions. Together, these arguments provide a good explanation of the pattern of contract concessions outlined below.

Taken as a group, pilots have made more concessions than all other workgroups combined. In almost every case, they have been the first group to make concessions and have given up the most. The reason for this seems

clearly to be because pilots have the most to lose from layoffs. First, alternative employment with other carriers would result in a sharp pay cut. Pilots who switch carriers lose their seniority and move to the bottom of the seniority pay scale at their new carrier. During this recession, as many as 5000 pilots were laidoff, suggesting that the ability to move to a new carrier was remote. Second, there are almost no employment prospects outside of the airline industry that would make use of their skills. With respect to union characteristics, many argue that pilots identify with management and have more understanding of their problems than do other workgroups. In addition, the tremendous autonomy that the locals have in bargaining implies that they are free from pressure to maintain some industry pattern. Further, the fact that ALPA faces almost no competition from other unions seeking to represent pilots gives makes it easier to take sometimes unpopular decisions such as granting concessions.

The situation facing flight attendants is, perhaps surprizingly, quite different from that of pilots. While there is no market outside of air transport for these specific skills, flight attendants have less to lose from layoffs than pilots first because their wages are considerably less and second because seniority-based pay scales are less steep, making it easier to move to a different carrier (CAB 1975). Perhaps most importantly, flight attendants have historically had less attachment to their jobs than pilots; if one is expecting to move to a different job, there is less interest in making sacrifices to save the current one. The characteristics of flight attendant unions also differ from the pilots. There are as many as 11 union representing flight attendants, and the rivalry between them is intense. Kahn (1980) noted, for example, that between 1976 and 1979, flight attendants at six carriers changed their representation. As a result, the flight attendant unions have taken much tougher lines in bargaining across the carriers and have agreed to fewer (18 percent of the total number), less significant concessions than have the pilots.

TABLE 1

Incidence of Wage and Work Rule Concessions by Carrier and Work Group

Carrier	Work-Group	Flight			Non-Flight			Totals for Carrier		
		Pilots		Flight Attendants		Mechanics		Ground Support		
		Wage	Work Rule	Wage	Work Rule	Wage	Work Rule	Wage	Work Rule	Combined
American		2	9	2	2	1	3	1	3	6
Braniff		1	2	1	0	1	0	1	0	4
Continental		2	4	0	0	0	0	3	1	5
Delta		1	1	*	*	*	*	1	0	2
Eastern		3	4	2	0	3	3	5	3	13
Frontier		4	3	2	1	0	0	2	7	8
Northwest		1	1	2	1	0	0	0	1	3
Pan Am		3	7	3	4	2	0	2	0	10
Republic		7	5	6	5	3	2	6	3	22
Trans World		3	13	0	0	0	0	3	6	6
United		1	3	1	1	1	2	0	0	3
Western		6	6	5	6	4	3	7	8	22
Wage, Work Rule Totals by Group		34	58	24	20	15	13	31	32	104
Percent of All Wage, Work Rule Concessions		33%	47%	23%	16%	14%	10%	30%	27%	46%
Total Concessions (Wage and Work Rule) by Group		92		44		28		63		
Percent of Concessions by Group		42%		19%		12%		27%		
All Carriers										227
										54%

Note: *These groups are non-union at Delta.
Source: AIRCon data.

At the other end of the spectrum one finds the mechanics who have been the workgroup far and away the least inclined to agree to concessions. Only 11 percent of the total number of concessions in the industry were granted by mechanics, and they were typically far less significant changes than for other groups. From the employers' point of view, the labor cost differential associated with mechanics is not great relative to the nonunion competition because the mechanical work for the latter is typically done under contract by the larger unionized carriers. Further, alternative employment is much more available at other carriers and outside air transport (in manufacturing, e.g.) at wages comparable to those paid by the trunk carriers. Perhaps most importantly, the structure of the IAM which represents the vast majority of airline mechanics works to limit concessions. The International has the ability to nulify local agreements and has used that power to prevent concessions at individual carriers (BW 4/9/84). The IAM has a strong incentive to avoid concessions altogether in order to prevent them from spreading to its negotiations outside of air transport where similar settlement patterns are followed.

In many cases unions are able to secure improvements in some aspects of employment relations in return for granting concessions. These quid pro quos typically are secured in areas which do not raise current labor costs, often expanding negotiations into new areas outside of the current contract. Whether unions are able to secure these improvements depends on how badly management needs union cooperation; in short, whether the unions have bargaining power (Cappelli 1984). As argued above, the airline unions still have considerable bargaining power, and it is therefore not surprising to find that they have secured an important array of improvements.

1. For example, the IAM took one of its locals to court recently in an effort to prevent a concession agreement from being approved at Braniff (DLR, 9/11/84).

Quid Pro Quos For Concessions

	AA	BA	EA	FL	NW	RA	WA	UA	TWA	PA
Explicit Employment	*		*			*		*	*	
Profit Sharing		*	*	*		*	*			*
Stock Plans			*	*		*	*			
Future Pay					*					
Subcontracting/ Double breasted			*	*	*					
Board Membership			*			*	*			

(Source: AIRCon and popular press.)

The pressures generated by carrier-specific bargaining in competitive product markets tie the interests and prospects of union members to the performance of the carrier, and the quid pro quos outlined above strengthen that relationship. In addition to the fact that employment prospects are closely linked to firm performance, participation in corporate decisionmaking helps create commitment on the part of the workforce to the goals of the carrier; profit-sharing, stock ownership, and other arrangements provide financial incentives to pursue those goals. Together these arrangements will further the attachment of airline employees to their employers, perhaps making it more difficult for their unions to achieve the industry-wide structure that manufacturing unions have historically used to counter wage-cutting pressures.

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